#### A. SUMMARY OF AUDIT RESULTS

- 1. The auditors' report expresses an unqualified opinion on the financial statements of the City.
- 2. Ten reportable conditions were disclosed during the audit of the financial statements and are reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. The conditions reported are not considered to be material weaknesses
- 3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
- 4. No reportable conditions were disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.
- 5. The auditors' report on compliance for the major federal award programs for the City expresses an unqualified opinion.
- 6. Audit findings relative to the major federal award programs for the City are reported in Part C. of this Schedule.
- 7. The programs tested as major programs included:

US Department Housing and Urban Development

Section 8 Housing CFDA #14.855
Public Housing CFDA #17.850
Shelter Plus CFDA #14.238
Fair Housing Initiative CFDA #14.409

US Department of Transportation

Airport Improvement Program: CFDA # 20.106

US Department of the Interior

Monica Roybal Teen Center CFDA #15.919

US Department of Health and Human Services

Foster Grandparent Program CFDA # 94.011

## A. SUMMARY OF AUDIT RESULTS

- 8. The threshold for distinguishing Types A and B programs was \$300,000
- 9. The City was determined to be a high-risk auditee.

## **B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

## 01-10 Business Continuity Plan (Repeated and Updated)

#### **CONDITION**

In developing an understanding of internal controls related to Information Technology and Telecommunications Department (ITT), we noted that the City did not have a current business recovery plan that would enable the City to recover from a disaster. Such disasters could range from loss of electronic data processing capabilities to major natural disasters.

### **CRITERIA**

The City should have a comprehensive, written business recovery plan. The plan should include documented, tested procedures, which if followed will ensure the ongoing capabilities of critical resources and continuity of operations in the event of a disaster.

#### **CAUSE**

The current business continuity plan was developed as part of Y2K preparedness. This document is outdated and does not address current processes.

#### **EFFECT**

Should a disaster occur, the City does not have a reliable plan guiding restoration of critical processes. Interruption of vital City services could endanger the safety of human life.

#### RECOMMENDATION

We recommend that a comprehensive business recovery plan be developed to enable the City to recover from a disaster. The plan should identify critical processes and recovery time frames. At a minimum, the following should be included in the plan:

- Contact list containing names and phone numbers of key personnel.
- Copies of the plan to be distributed to key employees and stored offsite.
- Identification of alternative sites for short-term data processing in the event a primary data processing center is unavailable.

## B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

- User and data processing procedures for the selected recovery alternative(s) for critical applications.
- Training of personnel in implementation of the plan.
- Provision for updating the plan as systems and processes change.

In addition to drafting the plan document, the City should develop testing methodologies for the business recovery plan. Ongoing testing of business recovery procedures should be performed to ensure their efficacy and to train staff in the recovery process.

#### MANAGEMENT RESPONSE

ITT has established a task force to research e-government opportunities in the various departments. In so doing, the information being gathered is also being used to identify mission critical applications, contact personnel, escalation procedures and recovery processes. A final document will be available by July 1, 2004.

## <u>02-5</u> Bond Covenants (Repeated)

#### **CONDITION**

• The Series 1996C Municipal Recreation Complex Subordinate Net Revenue/Subordinate Lien Gross Receipts Tax Revenue Bonds protective covenants of the City Specify "there will be charged against all users of the Recreation Complex, such rates as will be adequate to meet the requirement of this and the preceding sections, and which will be sufficient to produce revenues annually to pay (i) the annual operation and maintenance expenses of the Recreation Complex and (ii) one hundred ten percent (110%) of both the principal of and interest on the bonds and any other obligations payable annually from the revenues thereof..."

The City has not set rates sufficient to meet the above bond covenants.

• The Series 1998 Municipal Recreation Complex Net Revenue Bonds protective covenants of the City specify "there will be charged against all users of the recreation complex, such rates as will be adequate to meet the requirement of this and the preceding sections, and which will be sufficient to produce revenues annually to pay (i) the annual operation and maintenance expenses of the recreation complex and (ii) one hundred ten percent (110%) of both the principal of and interest on the bonds and any other obligations payable annually from the revenues thereof.....)"

## B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

The City has not set rates sufficient to meet the above bond covenants.

#### CRITERIA

The City is responsible for meeting the covenants on all outstanding bonds.

**EFFECT** 

The City is not in compliance with certain bond covenants.

**CAUSE** 

The City has not set rates sufficient to cover the bond covenants.

#### RECOMMENDATION

The City should review the rates for services on a regular basis. Rates should be set such that the bond covenants are fulfilled.

#### MANAGEMENT RESPONSE

The bond revenue requirement for the MRC is not as easy as raising rates, since rates are controlled by BLM and increased rates that are not competitive would decrease usage and revenue. It is apparent the revenue will not be sufficient to fully cover the debt service, let alone meet the bond covenants any time in the near future, particularly with the current lack of national economic recovery and the number of courses recently built in the area. A letter will be sent to the city's bond attorney to determine what options the city has.

## 03-1 Backup and Recovery Standards

#### CONDITION

During the fiscal year ending June 30, 2003, we noted that the City was not following consistent, documented procedures for performing magnetic tape backups of vital electronic data and applications software.

## B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

#### **CRITERIA**

The ability to successfully recover from an unexpected loss of data is dependent upon having reliable, up-to-date backup copies of data and applications.

#### **CAUSE**

- System administrators were selectively choosing which data sets and applications to back up and when to perform the backups, and
- The Veritas product used to back up the AS400 data and applications was unreliable, required systems to be down for extended periods, and required manual tape changes.

#### **EFFECT**

The lack of reliable backups could result in a loss of data that would be expensive, if not impossible, to reconstruct.

#### RECOMMENDATION

We recommend that the City develop standards for backing up data and applications that ensure full recovery with minimal downtime in the event of data or system loss. The plan should include documented procedures containing operator instructions, provisions for daily backup of data files, periodic backup of applications, rotation and offsite storage of backup media and periodic testing of recovery capabilities.

Note: We observed that the City had acquired two high-capacity Network Attached Storage (NAS) devices and was in the process of installing these devices in late July 2003. One device was being installed at the main data center (City Hall) and the second was being installed at the Network Operations Center (NOC) on Siringo Road. The City's plans for these units is two-fold: (1) to make continuous, mirrored images of all data changes throughout the day and (2) to perform full, automated daily backups at both sites. Implementation of this backup strategy will correct the deficiency noted above.

#### MANAGEMENT RESPONSE

ITT is installing state-of-the-art storage and back-up equipment/software to automatically and routinely backup all mission critical applications and databases. The Network Attached Storage (NAS) units are being installed in City Hall and the Siringo complex, they will provide 24/7 mirroring and redundancy and provide disaster recovery services.

## **B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

<u>All</u> applications will be backed fully backed up weekly and new application changes will be done daily at a pre determined time requiring no human intervention.

## 03-2 External Access to City Network

#### CONDITION

In developing an understanding of access controls related to the City's computer network, we noted that during the year ending June 30, 2003, selected users could access the AS/400 through dial-up connections. These particular dial-up connections allowed direct access to the City's network. Such connections were behind the firewall, creating a security risk. Towards the end of the fiscal year, ITT addressed this issue by phasing out these dial-up connections and moving to a more secure Virtual Private Network (VPN) connection. The VPN permits users to connect through the Internet, rather than dialing a City number.

## **CRITERIA**

ITT should have the ability to control all connections to the network. Dial-up connections that permit access behind the firewall are a security risk. Such connections could be used by hackers, or for other unauthorized activities. A VPN connection is far more secure, because only specific computers are permitted access to the network.

#### **CAUSE**

City employees are granted access to the network to perform official City business from home. Secure connections, such as a VPN connection, permit ITT to ensure that only authorized individuals gain access to systems. Dial-up connections, however, create the potential that non-authorized individuals, including hackers, may attempt to access the network.

### **EFFECT**

Dial-up modem connections increase the vulnerability of systems to intruders. Hackers may discover the dial-up numbers and access the network for unauthorized activities. Hacking or other unauthorized activities could jeopardize the integrity of the network. As a result, City databases could be corrupted or viruses may be introduced to the network.

## B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

#### RECOMMENDATION

Dial-up access should be restricted to the demilitarized zone. There should be no dial-up access behind the firewall. Because of the high-risk posed by dial-up connections, we recommend that external access for City employees should be through the Virtual Private Network. To ensure that ITT maintains a high level of control, high-volume users should be issued city-owned personal computers or laptops configured to access the VPN. As an alterative, users requiring only periodic access could bring their personal machines to City Hall to be properly configured for VPN access by an ITT technician.

#### MANAGEMENT RESPONSE

ITT has created a Virtual Private Network (VPN) for accessing the City's data network remotely. The VPN provides a secure and reliable tunnel into the network, which substantially reduces the possibility of hacking and sabotage. VPN access will be made available to users having city issued laptops/desktops or personal machines brought into ITT for configuration. ITT management does not encourage the use of personal machines to access the city's network because we have no way of verifying that the user has current virus protection. Additionally, ITT cannot be held responsible for any damage which may be caused to a users machine.

#### 03-3 IT Steering Committee

#### **CONDITION**

The City of Santa Fe does not have an internal Information Technology Steering Committee.

#### **CRITERIA**

When the City is considering implementing new applications or deploying new technologies, a steering committee is useful to analyze the business purposes for the decision. In addition, a steering committee can provide oversight of major projects to ensure implementation is completed in a timely fashion and is consistent with project specifications.

#### **CAUSE**

The City has established an external Information Technology Steering Committee to consider the needs of the citizens and business community. A similar committee should

## B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

be established internally, to ensure that internal ITT issues and user concerns are considered

#### **EFFECT**

Without a cross-functional steering committee, poor decision-making may occur or key IT issues may go unreported.

#### RECOMMENDATION

We recommend that an internal Information Technology Steering Committee be formed to identify internal ITT issues and consider solutions. Membership in the committee should be cross-functional, and include representation from various City departments, human resources, administration and information technology.

#### MANAGEMENT RESPONSE

ITT intends to establish and internal steering committee at fiscal mid-year. Invitations will be made for all departments to have a single representative for the purpose of identifying individual department issues and requirements. The committee will convene quarterly.

## 03-5 Dial-up Access

#### CONDITION

In developing an understanding of internal controls related to ITT, we noted that certain software providers had unlimited dial-up access to systems. This represents a potential weakness to access controls.

### **CRITERIA**

External access to networks and systems should be restricted. ITT should have the ability to control all external access.

## **B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

#### **CAUSE**

Support personnel from two software providers have unlimited dial-up capability and access to high-level system resources. Hackers may use dial-up connections to gain access to City computing resources.

#### **EFFECT**

Security of systems and data may be compromised through unauthorized use of vendor access capabilities.

#### RECOMMENDATION

We recommend that access for vendors be restricted by blocking dial-up access except at pre-determined times necessary for maintenance functions.

## MANAGEMENT RESPONSE

Effective Dec 1, 2003 contractors will be given temporary dial-up access, meaning they will be issued a one-time password at a predetermined time after receiving approval from the coordinating IT Manager.

#### SANTA FE CIVIC HOUSING AUTHORITY

#### 02-11 PURCHASING CYCLE (Repeated and Updated)

### **CONDITION**

During our documentation and test work of 16 cash disbursements, we noted the following instances of noncompliance with the governing procurement statutes/ordinances.

- One purchase order form was dated on October 7, 2002 and the invoice was dated on October 3, 2002.
- One purchase in excess of \$1,500 was approved by an employee who did not have the authority to approve a purchase of that amount.

## B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

#### **CRITERIA**

Per State Procurement Code 13-1-1 to 13-1-199 NMSA 1978, purchase orders should be prepared before goods and services are received. Employees authorized to approve purchases should only approve purchases within their limits.

#### CAUSE

Due to the size and rapid growth of the Housing Authority, there are instances in which all required purchasing procedures are not followed in order to satisfy Housing Authority needs or emergencies.

#### **EFFECT**

The Housing Authority raises its risk of loss when the controls mentioned above are not properly functioning.

## RECOMMENDATION

All purchases should be following the Housing Authority's policies and procedures with out exception. In addition, the policies and procedures should incorporate all situations including when designated purchasers are out of the office and emergency purposes.

#### MANAGEMENT RESPONSE

Pursuant to your test on cash disbursements two exceptions were noted:

- One purchase order form was dated on October 7, 2002 and the invoice was dated on October 3, 2002.
- One purchase in excess of \$1,500 was approved by an employee who did not have the authority to approve a purchase of that amount.

We are in agreement with both cause and effect and we will reinforce our policy and your recommendation of following procedure without exception.

### 02-12 BUDGET OVERAGES (Repeated and Updated)

#### **CONDITION**

During our analysis of the budget for the year ended June 30, 2003, we noted the Housing Authority funds were over budget by \$71,564.

## B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

#### CRITERIA

State statute 6-6-6 NMSA 1978, requires that local government spending does not exceed budgeted amounts at the fund level, unless approved a budget adjustments are made.

#### **CAUSE**

Mid and year end reviews of budgeted and actual expenditures was not completed.

#### **EFFECT**

The Authority is not in compliance with state statutes.

#### RECOMMENDATION

Management should update policies and procedures that specifically include reviews that compare actual to budgeted expenditures. In addition, if possible, the software upgraded to include a feature which does not allow expenditures to be made unless there is room in the budget.

#### MANAGEMENT RESPONSE

The Housing Authority budget was over budgeted by \$71,564.

We agree that this is not in compliance with state statutes and tools to track budget levels are currently in place. Your recommendation is well noted.

## 03-06 GRANT REIMBURSEMENTS

#### **CONDITION**

As part of reviewing open grants, we noted that the Housing Authority is able to apply for a subsidy related to La Cieneguita and has not applied for it.

#### **CRITERIA**

Proper grant and cash management requires that grant reimbursements be requested in a timely manner. The Authority is behind nearly two years in requesting the reimbursements.

## B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

#### CAUSE

The records maintained at the location are not adequate for grant reimbursements and the Authority has not placed urgent needs to this grant due to their strong cash position.

#### **EFFECT**

The Housing Authority is practicing adequate cash management. In addition, by not requesting reimbursements in a timely manner, the Authority is creating additional risk related to period of availability of funds.

#### RECOMMENDATION

Management should provide the necessary training to ensure that grant administrators are aware of all grant requirements, requirements are met and records are maintained to satisfy grant needs.

## MANAGEMENT RESPONSE

In review of current open grants it was noted that the Housing Authority is able to apply for a subsidy related to La Cieneguita and has not applied for it.

We are aware of the exception and as a new administration are in the process of analyzing both budget process and revenue resources. We will develop training plans as recommended to ensure that the grant administrators are aware of all grant requirements including record keeping.

#### 03-07 Insufficient Collateralization

#### **CONDITION**

At June 30, 2003, the Housing Authority was under collateralized by \$10,370 on its repurchase agreement held at Bank of America and \$10,228 on its demand deposit account held at Century Bank

#### **CRITERIA**

Bank deposits are required to be collateralized at 50% per NMSA 6-10-17 and repurchase agreements are required to collateralized at 102% per NMSA 6-10-10.

## B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

#### **EFFECT**

If a default occurs at the above bank, the Authority could incur a loss from loss of principal.

#### **CAUSE**

While the FDIC insurance is generally adequate to cover the normal balance, unusually large activity occurred in this account before year-end.

## RECOMMENDATION

We recommend the Authority review collateral amounts with banks and ensure amounts are adequate for peak balances.

#### MANAGEMENT RESPONSE

Collateral is monitored on a regular basis and was in compliance until year-end. We will continue to monitor collateral and endeavor to anticipate large changes in our bank account and so inform our bank so they can update our collateral accordingly.

# C. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

# CITY OF SANTA FE STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2002

Prior Year Finding Description		Status
City of Santa Fe		
00-1	Sangre de Cristo Water Division – Utility	
001	Billing System (UBS) (Material Weakness)	Resolved
00-5	Due Date of Audit Report	Resolved
00-6	Personnel	Resolved
	IT Network	Resolved
01-6	Accounts Receivable	Resolved
01-10	Computer Systems	Repeated and updated
	CDBG and Bureau of Reclamation – suspension	1 1
	and debarment	Resolved
02-1	Budgets, Budget Adjustments,	
	and Revenue and Expenditures	Resolved
02-2	Take-Home Cars	Resolved
02-3	Criminal Activity	Resolved
02-4	Unaccounted For Water	Resolved
02-5	Bond Covenants	Repeated
02-6	Collateral Requirements	Resolved
02-7	Emergency Medical Services Billing	Resolved
02-8	Cashiers Office Data Security	Resolved
02-9	Internal Audit	Resolved
02-10	Budget Overage	Resolved
Santa Fe Civic Housing Authority		
	Purchasing Cycle	Repeated and updated
02-12	Budget Overage	Repeated and updated